



Deja Vu: Back to 2002

Posted by [Pierluigi Oliverio](#) on Monday, May 17, 2010

In 1993, city staff began looking at selling the Municipal Water system, which the City of San Jose currently owns. Municipal Water covers approximately 10 percent of the city serving portions of Council districts 2, 4 and 8. The main service provider, San Jose Water Company, a private company, provides approximately 80 percent of San Jose residents with water. The remaining 10 percent of water is provided to residents in District 2 by another private company, Great Oaks Water.

The staff report that started in 1993 was completed in 2001 and finally made its way to Council in 2002. (Hope we can move faster than this when it comes to selling the Hayes Mansion, Old City Hall and one of three golf courses.) So on May 21, 2002, by a 6-5 vote, the council directed staff to move forward with negotiating a 30-year lease of the San Jose Municipal water system to the San Jose Water Company. The ayes were Dave Cortese, Pat Dando, John Diquisto, Ron Gonzales, Chuck Reed and George Shirakawa. The nays were Nora Campos, Cindy Chavez, Forrest Williams, Ken Yeager and Linda LeZotte.

I think the basic question is, "Should San Jose provide water to 10 percent of the residents when 90 percent is being done today by the private sector?" There are some advantages for the City to own a public utility, like lower rates than those of who get water from private water retailers since the city does not charge those residents a franchise fee and there are no shareholders to pay. Yet those same property owners have an assessment on their property taxes to pay for bonds for Municipal Water. Another positive is being able to get water from Hetch Hetchy for North San Jose since Hetch Hetchy will not sell water to private utilities. However even with a public utility water from Hetch Hetchy is not guaranteed and must be negotiated from time to time.

The cost to run Municipal Water is \$22 million annually and employs 30 full time employees whose costs are covered by the ratepayers, not the general fund. Municipal Water transfers \$815K a year to the general fund to pay overhead for a portion of salaries for people who

support Municipal Water in other departments like HR, attorneys, payroll, etc.

Prior to passage of Prop 218 in November 1996, San Jose and other cities could charge more for services and make a profit to pay for other city services. Prop 218 was given as the main reason our negotiations that started in 2002 fizzled. However, if we had sold or leased Municipal Water prior to the passage of Prop 218 it would have been a different story. We discussed this item during our budget hearings this week. This is where the Council does a deep dive into specific department budgets. The structural deficit has renewed our interest in looking at selling or leasing the Municipal Water system.

San Jose Water Company would like to buy the Municipal water system and has offered the city an upfront payment of \$54 million and allowing a franchise fee on the San Jose Water company which would bring in approximately \$4 million to the general fund each year. Or a lease arrangement where they would pay \$25-40 million upfront depending on the terms and length of the lease. The upfront payment could be used to pay off outstanding bonds and the balance into capital improvements like street paving. Another issue is what would happen with the current 30 employees? Would they transfer over to San Jose Water company and retain all of their seniority, compensation and benefits?

Personally I think there is an advantage in San Jose controlling recycled water as this allows the city to control its destiny on growing jobs for the long term. But I am not sure we get the same advantage by being a water retailer where we are not allowed to make a profit to fund core city services and be on the hook for all the future maintenance of that system.

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